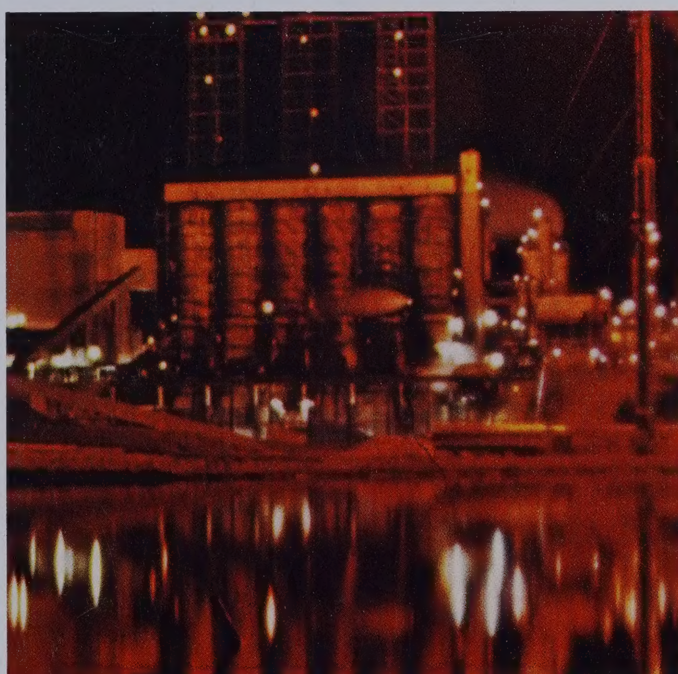
# 1970 Annual report



Great Canadian Oil Sands Limited

**Directors (as at December 31, 1970)**
Alex E. Barron
Darwin W. Ferguson
Kenneth F. Heddon
Ardagh S. Kingsmill
Robert McClements, Jr.
Harold V. Page
W. Harold Rea
James S. Roe
J. Grant Spratt
Donald J. Wilkins

**Officers (as at December 31, 1970)**
W. Harold Rea
*Chairman of the Board*
Kenneth F. Heddon
*President*
Harold V. Page
*Executive Vice-President*
Walter C. Huffman
*Vice-President and General Manager*
Darwin W. Ferguson
*Vice-President*
Reginald D. Humphreys
*Vice-President*
Robert McClements, Jr.
*Vice-President*
Ardagh S. Kingsmill
*Secretary*
James S. Roe
*Treasurer*
Maurice B. Parmelee
*Comptroller and Assistant Treasurer*
Dudley M. McGeer
*Assistant Treasurer*
Wilfred C. Blood
*Assistant Comptroller*
Anthony A. L. Wright
*Assistant Treasurer and Assistant Secretary*

GREAT CANADIAN
OIL SANDS LIMITED

# Report of the directors
## to the shareholders and to the employees

The year 1970 saw continued significant progress in the operations of your Company. Production of synthetic crude reached 11,950,000 barrels, a gain of nearly 20 per cent over 1969 when production was 9,978,000 barrels. On a daily basis, output averaged 32,700 barrels compared to 27,300 barrels in 1969.

Financially, GCOS showed improvement over 1969. Losses in 1970 totalled $16,028,033 on revenues of $34,738,830 compared to $25,546,111 on revenues of $28,471,961 for the previous year. The improvement results mainly from higher production, reduced royalties and lower interest expense.
The royalty reduction, which in 1970 amounted to about $2,400,000, arose from three sources. As from April 1, 1970, the Province of Alberta reduced by 50 per cent for three years the royalty payable under the Royalty Regulation. Effective on the same date, Abasand Oils Limited and Sun Oil Company Limited have each agreed to waive royalties payable by GCOS under its sublease covering the mine. Abasand waived 50 per cent of its share of the royalties for three years, subject to earlier termination at Abasand's option at March 31, 1971 or March 31, 1972. Sun Oil Company Limited waived all of its share of the royalties until the GCOS deficit account is eliminated or until GCOS attains satisfactory financial results from its operations.

By the end of the year, your Company had discharged its short term borrowings and thus has substantially reduced its interest expense. Funds to repay this debt were obtained through the sale of shares to the parent Sun Oil Company. During 1970, Sun purchased 22,500,000 common shares of GCOS for $100,125,000 cash and subscribed for 100,000 seven per cent non-cumulative fourth preferred shares for $10,000,000 cash.

An industry-wide crude oil price increase of 25¢ per barrel went into

effect during December. The increase occurred too late in the year to add significantly to your Company's revenues in 1970, but should have a material effect in 1971.

Another benefit to your Company's revenues will result from recent amendments to the sale of product agreements with the Company's two long-term contract purchasers, effective January 1, 1971. Under these amendments, product specifications are changed and the selling price is increased by 20¢ per barrel for a minimum period of two years, subject to possible adjustment if there is a further general increase in crude oil prices of 20¢ or more.

For the Company's facilities near Fort McMurray, 1970 was a year of accomplishment. The power plant boilers operated for sustained periods at rated capacity while in the process area only minor difficulties were encountered. The process area underwent two comprehensive shutdowns for maintenance and at the same time extensive debottlenecking was accomplished. Subsequent operation proved out all process units at greater than design capacity. Production during September, the best month, averaged over 52,000 barrels daily.

A number of developments also occurred in the mine and the extraction plant. A second conveyor system went into operation and proved most beneficial in maintaining a more uniform delivery of tar sand to the extraction plant. As well, a new conveyor belt upgrading procedure has resulted in improved belt life and lower costs. We consider this a significant step in view of the severe operating conditions and the increasing distance from the mine to the extraction plant. At present, three and one-half miles of conveyor are in use.

Overburden removed totalled about 6.8 million cubic yards. This aspect of your Company's operations underwent detailed study during the year resulting in the development of a programme which your Company believes will effect economies in overburden removal. The programme is based on using giant 150-ton trucks and will require a $10,000,000 capital expenditure. Overburden removal equipment previously was leased.

Substantial work to increase the capacity of the extraction plant also was undertaken. Changes included the installation of larger pumps and simplification of the oversize conveyor system which handles large rock pieces and other unsuitable material rejected from the conditioning drums. Each of the four extraction lines can now handle 2,000 tons or more of tar sand per hour. In general, the extraction plant continued to perform well.

The following table sets out the gains made by various segments of the plant over the past year:

| | |
|---|---|
| *Tar sand mined* | |
| 1970 | 30,181,000 tons |
| 1969 | 26,168,000 tons |
| *Bitumen produced* | |
| 1970 | 15,504,000 bbls. |
| 1969 | 14,630,000 bbls. |
| *Synthetic crude produced* | |
| 1970 | 11,950,000 bbls. |
| 1969 | 9,978,000 bbls. |

Shipments of synthetic crude by the GCOS Fort McMurray-to-Edmonton pipeline totalled 11,894,000 barrels. To give the line greater flexibility additional pumping equipment is being installed to increase design capacity to 68,000 barrels daily.

While your Company is pleased with the progress made last year, some problems remain, primarily in the mine. Mining operations have been limited by numerous maintenance difficulties and, in the winter months, by the complexities of handling frozen tar sand. Rock lenses, which also retard digging operations, continue to be found in the tar sands.

The Town of Fort McMurray made excellent progress in its development during 1970. Additional medical and health services became available and community groups started construction of a new swimming pool. The installation of cable television late in the year added a further amenity. In keeping with Company policy, GCOS employees are encouraged to participate in community projects and activities. In the autumn, GCOS began construction of 50 new homes for its employees and 10 were completed before year-end.

A new two-year agreement, effective May 1, was signed with the GCOS Employees' Bargaining Association. The agreement provided for wage increases on the effective date and at May 1, 1971 as well as other changes in working conditions. Late in the year an Employee Savings and Stock Purchase Plan was implemented which permits employees to purchase, with GCOS assistance, Sun Oil Company common shares and Canada Savings Bonds.

In conclusion, we want to thank our employees for their loyalty and hard work which contributed in such a meaningful way to our progress in 1970. We also would like to thank our suppliers for their efforts on our behalf. In light of the growing demand for hydrocarbons in North America, the Athabasca tar sands have taken on additional importance as a source of energy. We look forward to 1971 as a year of further progress in freeing this energy for present and future use.

W. H. Rea

W. Harold Rea, *Chairman of the Board*

K. F. Heddon

K. F. Heddon, *President*

February 10, 1971

*With new conveyor system in background, bucketwheel bites into mine face.*

Golf is a popular summer recreation among employees.

Fire fighting ranks high among safety training programs.

Curling highlights variety of winter activities.

Construction moves ahead on additional housing.

**GREAT CANADIAN OIL SANDS LIMITED**
(Incorporated under the laws of Canada)
and its subsidiary

# Consolidated balance sheet

**December 31, 1970**

*(with comparative figures at December 31, 1969)*

| **Assets** | **1970** | 1969 |
|---|---|---|
| **Current:** | | |
| Cash | $ 172,230 | $ 201,046 |
| Accounts receivable (note 2) — | | |
| Trade | 2,762,728 | 1,955,819 |
| Other | 826,190 | 641,300 |
| Inventory of finished product, at estimated net realizable value | 1,266,587 | 1,302,331 |
| Inventory of materials and supplies, at cost (note 3) | 6,938,399 | 548,909 |
| Prepaid charges | 1,308,345 | 2,630,326 |
| Total current assets | 13,274,479 | 7,279,731 |
| **Plant facilities and housing (note 4):** | | |
| Plant, buildings and equipment, at cost | 186,287,753 | 181,515,782 |
| Less accumulated depreciation | 11,824,770 | 7,602,986 |
| | 174,462,983 | 173,912,796 |
| Housing — | | |
| Rental housing properties and trailers, at cost (less accumulated depreciation 1970 — $1,430,788; 1969 — $1,003,022) | 1,885,980 | 2,061,173 |
| Houses to be sold under long-term instalment sales agreements with employees, at the lower of cost or selling price | 287,204 | 376,904 |
| Housing under construction and serviced lots, at cost | 1,118,566 | 569,941 |
| Accounts receivable, under long-term instalment sale agreements, for houses sold to employees (note 7) | 6,994,769 | 6,857,733 |
| Total plant facilities and housing | 184,749,502 | 183,778,547 |
| **Deferred costs (note 4):** | | |
| Deferred development, preproduction and start-up costs, less write-offs and amortization | 64,374,179 | 65,872,459 |
| Deferred overburden removal (stripping) costs | 14,112,573 | 13,168,437 |
| Total deferred costs | 78,486,752 | 79,040,896 |
| | $276,510,733 | $270,099,174 |

On behalf of the Board:
W. H. Rea, Director
J. S. Roe, Director

*(See accompanying notes to financial statements)*

| Liabilities and shareholders' equity | 1970 | 1969 |
|---|---|---|
| **Current:** | | |
| Accounts payable and accrued charges (note 2) | $ 6,280,731 | $ 5,353,639 |
| 5¾% notes due within one year (U.S. $2,000,000) at current exchange rates | 2,040,000 | — |
| Bank loans | — | 16,050,000 |
| Short term notes payable to Sun Oil Company Limited | — | 5,000,000 |
| Total current liabilities | 8,320,731 | 26,403,639 |
| **Non-current (note 5):** | | |
| 6% unsecured debentures (Alberta issue) due May 15, 1975 | 12,363,948 | 12,374,764 |
| 5¾% notes due July 1, 1991 (1970 — U.S. $48,000,000; 1969 U.S. $50,000,000) translated at exchange rates prevailing at date of issue | 51,619,000 | 53,769,000 |
| 6¼% — 9½% mortgages payable on houses sold and to be sold and rental units (repayable over terms up to 25 years) | 6,710,399 | 6,612,899 |
| Short term notes to be refinanced | — | 62,850,000 |
| Total non-current liabilities | 70,693,347 | 135,606,663 |
| **Shareholders' equity:** | | |
| Capital (note 6) — Authorized: 2,000,000 Voting Preferred Shares of $100 par value each consisting of — 500,000 First Preferred Shares; 500,000 Second Preferred Shares; 450,000 Third Preferred Shares; 550,000 Fourth Preferred Shares, issuable in series; 35,000,000 Common Shares without nominal or par value | | |
| Issued: | | |
| 500,000 7% Non-Cumulative Redeemable First Preferred Shares | 50,000,000 | — |
| 500,000 7% Non-Cumulative Redeemable Second Preferred Shares | 50,000,000 | 145,000,000 |
| 450,000 7% Non-Cumulative Redeemable Third Preferred Shares | 45,000,000 | — |
| 28,495,731 Common Shares (1969 — 5,994,384 shares) | 126,197,432 | 26,061,616 |
| Subscription payments received from Sun Oil Company for Fourth Preferred Shares (note 6) | 5,300,000 | — |
| Deficit | (79,000,777) | (62,972,744) |
| Total shareholders' equity | 197,496,655 | 108,088,872 |
| | $276,510,733 | $270,099,174 |

*(See accompanying notes to financial statements)*

Consolidated statements of

# Income and deficit

for the year ended December 31, 1970

*(with comparative figures for 1969)*

## Income

| | 1970 | 1969 |
|---|---|---|
| **Revenue:** | | |
| Value of synthetic crude and other products produced for sale | $ 34,738,830 | $ 28,471,961 |
| **Costs and expenses:** | | |
| Costs, operating, administrative and general expenses | 36,307,273 | 36,691,938 |
| Amortization of deferred development, preproduction and start-up costs | 1,498,280 | 1,251,847 |
| Depreciation | 4,930,797 | 4,240,303 |
| Interest — | | |
| On bank loans and short term notes | 4,350,790 | 6,273,201 |
| On long term notes and debentures | 3,679,723 | 5,560,783 |
| | 50,766,863 | 54,018,072 |
| **Net loss for the year** | $ 16,028,033 | $ 25,546,111 |
| Net loss per common share (note 9) | $0.97 | $4.26 |

## Deficit

| | 1970 | 1969 |
|---|---|---|
| Balance, January 1 | $ 62,972,744 | $ 37,426,633 |
| Net loss for the year | 16,028,033 | 25,546,111 |
| Balance, December 31 | $ 79,000,777 | $ 62,972,744 |

Consolidated statement of

# Source and application of funds

for the year ended December 31, 1970

*(with comparative figures for 1969)*

| | 1970 | 1969 |
|---|---|---|
| **Source of funds:** | | |
| Issue of common shares | $100,125,000 | — |
| Subscription for fourth preferred shares | 5,300,000 | — |
| Mortgages on houses (net) | 97,500 | $ 7,521 |
| Issue of 7% non-cumulative redeemable preferred shares | — | 145,000,000 |
| Increase in short term notes and bank loans | — | 27,225,000 |
| Decrease in current assets (less decrease in accounts payable and accrued charges) | — | 479,058 |
| | $105,522,500 | $172,711,579 |
| **Application of funds:** | | |
| Loss for the period (less depreciation and amortization 1970-$6,429,077; 1969-$5,492,150) | $ 9,598,956 | $ 20,053,961 |
| Reduction in short term notes and bank loans | 83,900,000 | — |
| 5¾% notes maturing within one year | 2,150,000 | — |
| Increase in deferred overburden removal costs | 944,136 | 2,389,767 |
| Plant facilities and housing | 5,901,752 | 5,267,851 |
| Repayment of notes payable to parent and affiliated companies | — | 145,000,000 |
| Increase in current assets (less increase in accounts payable and accrued charges) | 3,027,656 | — |
| | $105,522,500 | $172,711,579 |

*(See accompanying notes to financial statements)*

# Notes
**to consolidated financial statements**
December 31, 1970

**1. Basis of statement presentation**
The accompanying financial statements are prepared on a consolidated basis to include the accounts of Great Canadian Oil Sands Supply Limited, a new wholly-owned subsidiary company which began operations during 1970.

**2. Accounts with affiliated companies**
Included in accounts receivable and accounts payable are the following amounts receivable from, or payable to, Sun Oil Company (parent company) and its affiliates:

| | |
|---|---|
| Accounts receivable | $1,271,069 |
| Accounts payable and accrued charges | $ 360,384 |

**3. Inventory of materials and supplies**
During 1970, inventories owned by a supplier were acquired at a cost of $4.7 million. A portion of these inventories consists of spare parts for key pieces of production machinery which are essential to assure continuous operation of the plant and which would normally be excluded from current assets. During 1971 the company will carry out a detailed analysis of these inventories with a view to making the necessary reclassification of such parts. Pending completion of this analysis the entire material and supply inventory is included in current assets at December 31, 1970.

**4. Depreciation of plant facilities and housing and amortization of deferred costs**
The company's productive facilities are being depreciated using a unit of production method based on estimated reserves. Furniture and fixtures and automotive equipment are being depreciated over their estimated useful life periods ranging from 3 to 10 years. Rental housing properties are being depreciated over 5 years (trailers) and 25 years (buildings). Deferred development, preproduction and start-up costs are being amortized against income using a unit of production method based on estimated reserves. Deferred overburden removal (stripping) costs are being charged to production on the basis of the area actually mined.

**5. Non-current liabilities**
(a) 6% unsecured debentures (Alberta issue) —
These debentures, which mature on May 15, 1975, comprise the following:

| | |
|---|---|
| Debentures which are partially convertible (of which $3,371,500 are held by Sun Oil Company Limited) | $12,138,800 |
| Debentures in respect of which the partial conversion privilege has been exercised | 225,148 |
| | $12,363,948 |

Subject to certain terms and conditions, the partially convertible debentures may, at any time before May 1, 1975, be converted into fully paid and non-assessable shares of the company on the following basis, that is, with respect to each $100 principal amount of the debentures, $32 thereof may be applied to the purchase of and converted into:

(i) Three shares before May 16, 1973, or
(ii) Two shares after May 15, 1973 and before May 1, 1975.

Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest.

(b) 5¾% notes due July 1, 1991 —
The terms of the 5¾% notes require annual prepayments of U.S. $2,000,000 commencing July 1, 1971. The terms permit the company to make optional additional annual prepayments of up to U.S. $2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

**6. Share capital**
(a) Preferred shares —
Following shareholder approval of By-Law H, Supplementary Letters Patent dated June 23, 1970 were obtained which altered the capital of the company as follows:

(i) The 1,450,000 7% Non-Cumulative Redeemable Preferred Shares, Series A of $100 par value each, previously issued and outstanding were reclassified as —
500,000 7% Non-Cumulative Redeemable First Preferred Shares of $100 par value each,
500,000 7% Non-Cumulative Redeemable Second Preferred Shares of $100 par value each,
450,000 7% Non-Cumulative Redeemable Third Preferred Shares of $100 par value each,
(ii) 550,000 of the authorized but unissued Preferred Shares were classified as 550,000 Fourth Preferred Shares of $100 par value each, issuable in series, and
(iii) The remaining 1,000,000 authorized but unissued Preferred Shares were subdivided and reclassified into 26,000,000 Common Shares without nominal or par value to rank equally in all respects with the previously authorized 9,000,000 Common Shares.

(b) Common shares —
During the year 22,500,000 common shares were issued to Sun Oil Company for a cash consideration of $100,125,000 (18,000,000 at $4.50 per share and 4,500,000 at $4.25 per share). In addition 1,347 shares were issued upon the partial conversion of certain of the 6% unsecured debentures (Alberta Issue). 364,164 shares are reserved for possible issuance in future upon the partial conversion of the remaining debentures. A further 7,500 shares are reserved for possible issuance at $3 per share under an option granted to a director exercisable subject to certain terms and conditions on or before June 29, 1973.

(c) Subscription payments for Fourth Preferred Shares —
On December 16, 1970 the directors resolved that, subject to confirmation by Supplementary Letters Patent, the first series of the Fourth Preferred Shares should consist of 300,000 7%

Non-Cumulative Redeemable Fourth Preferred Shares, Series A. It was further resolved that up to 100,000 of such Fourth Preferred Shares Series A be allotted to Sun Oil Company for subscription at the cash price of $100 per share. The related Supplementary Letters Patent were issued as of December 17, 1970. On December 18, 1970 the company received a subscription from Sun Oil Company for 100,000 Fourth Preferred Shares, Series A, and by December 31, 1970 had received payments aggregating $5,300,000 on account of such subscription.

**7. Commitments and contingent liabilities**

(a) The company is a party to an agreement with Sun Oil Company Limited and Abasand Oils Limited involving the sublease of Bituminous Sands Lease No. 86 (approximately 4,500 acres) in respect of which the company is operating its plant. Lease No. 86 runs for a term of 21 years from June 1, 1966 renewable for further terms each of 21 years so long as the plant is in operation and subject to such terms and conditions as may be prescribed at the time renewal is granted. The annual rental is $1 per acre. Under this agreement the company has also assumed an indebtedness to the Government of Canada of $1,802,107 in respect of certain wartime expenditures in the Athabasca Tar Sands area. Principal payments on this debt have been deferred on an interest free basis until 1978. As the company is hopeful of obtaining relief from this debt, no provision for this amount has been recorded in the accounts of the company.

(b) In addition to crown royalties payable on production, the company is obligated to pay Sun Oil Company Limited and Abasand Oils Limited (under the provisions of the sublease agreement referred to in (a) above) a basic royalty of 10¢ per barrel of bitumen extracted or recovered from Bituminous Sands from the leased land, together with additional royalties to Sun and Abasand in respect of desulphurized crude oil under certain circumstances, and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. As from April 1, 1970, Abasand agreed to waive 50% of its share of the royalties for three years, subject to earlier termination at Abasand's option at March 31, 1971 or March 31, 1972, and Sun agreed to waive 100% of its share of the royalties until the earlier of the elimination of the company's deficit account or a determination that the financial results from the company's operations are satisfactory. During the year the Government of Alberta also agreed to the remission of 50% of the crown royalties payable by the company for a three year period beginning April 1, 1970.

(c) Under the provisions of the sale agreements covering the sale of houses to employees, the company has undertaken, in the event of employee termination within 10 years of the date of the sale agreement, to repurchase the employee's house by refunding all principal payments received. The aggregate of principal payments subject to such repurchase commitments at December 31, 1970 was approximately $292,000.

(d) The company is a party to agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of crude oil to be obtained from the project.

(e) The company's unfunded past service pension liability at December 31, 1970 is estimated at approximately $360,000. This amount is being funded, and charged to income, over a period of 19 years.

(f) Approved capital expenditure programs outstanding at December 31, 1970 totalled approximately $12,600,000 (including commitments of approximately $9,600,000).

**8. Remuneration of directors**

The total remuneration paid by the company to directors during 1970 including directors holding salaried employment, amounted to $108,000.

**9. Calculation of net loss per common share**

The net loss per common share is calculated using the weighted average method for shares issued during the year (such shares being deemed to be outstanding from the date the related subscription monies were received by the company). No adjustment is made in the calculation for dividends on outstanding preferred shares as dividends on these share are non-cumulative and none have been declared or paid to date.

# Auditors' report

*To the Shareholders of Great Canadian Oil Sands Limited:*

We have examined the consolidated balance sheet of Great Canadian Oil Sands Limited and its subsidiary as at December 31, 1970 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
*Chartered Accountants*
*Edmonton, Canada,*
*January 15, 1971.*

## GREAT CANADIAN OIL SANDS LIMITED

**Head office**
85 Bloor Street East, Toronto 5, Ontario

**Transfer agent and registrar**
The Canada Trust Company
110 Yonge Street, Toronto 1, Ontario
10182 102nd Street, Edmonton, Alberta
528 8th Avenue S.W., Calgary, Alberta

**Solicitors**
Tilley, Carson & Findlay
Toronto, Ontario

**Annual meeting**
The Annual Meeting of Shareholders will be held in the Library, The Royal York Hotel, 100 Front Street West, Toronto, Ontario at 10.30 a.m. (Toronto time) on Wednesday, March 31, 1971.

# 1970 Annual report

GREAT CANADIAN OIL SANDS LIMITED